

Sewer district to recover \$12M from tunnel project contractors

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Regional sewer district officials have reached a deal to recoup \$12 million from a group of construction companies over the troubled Mill Creek tunnel, a project plagued by millions of dollars in cost overruns and a corruption scandal that ultimately sent three people to prison.

Additionally, Northeast Ohio Regional Sewer District officials said Monday that they hope to reclaim \$5 million to \$7 million more from an insurance policy that protects the district against acts of criminal wrongdoing.

Ironically, the payout on that policy would stem from a case in-

volving the very person who took out the coverage for the district, former chief legal counsel William Schatz, who was sentenced in 2010 to nearly six years in prison for taking \$700,000 in bribes from 2004 to 2007 on the Mill Creek project.

"The \$12 million is the minimum we get out of this," said Darnell Brown, Cleveland's chief operating officer and president of the district's seven-member board. The district provides sewer service to Cleveland and 61 suburbs.

Since the district filed the lawsuit against the construction group in 2007, the district has overhauled its top staff and the way it awards and monitors construction projects.

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Cost overruns, commonly recommended by the staff and approved by the board for decades, have been completely eliminated.

"Everything's been tightened up to close the chapter on this and put in a system that's a lot more transparent," Brown said. "One of the things that we've said is that we wanted to send a message to the contracting community that we're going to hold them responsible for delivering projects on time and within budget."

Middleburg Heights Mayor Gary Starr, a 20-year sewer board member, said Monday that he hoped customers now understand that their money is no longer being squandered.

"There's been a dark cloud over the district over the last five years," he said. "I hope it's been eradicated."

Regaining public trust is paramount for the sewer district as it begins a five-year rate increase as of January that will see the cost

of sewer service jump an average of 13 percent a year. The bulk of the money is needed to complete work on construction projects that, like the Mill Creek tunnel, are designed to dramatically reduce discharges of untreated sewage into local waterways.

The Mill Creek tunnel, a subway-size underground pipe meant to capture and store untreated wastewater until it can be treated, was originally supposed to be a \$58 million project. With change orders, the district ultimately paid the construction group \$81 million, district officials said.

Millions of dollars of the project's added costs were attributed to the bribery scheme involving Schatz and contractor Robert Kassouf, whose company was the managing partner on the project. Kassouf was sentenced last year to nearly five years in prison for paying Schatz bribes to get change orders approved.

Businessman Stanley Lojek also was sentenced to a year and a day in prison in 2010 for helping to funnel bribes to Schatz.

Darrell Clay, a lawyer for The Kassouf Co., declined comment Monday. Lawyers for the other contractors involved in the lawsuit could not be reached late

Monday afternoon.

The lawsuit had been scheduled for trial later this year. But the sewer district board had agreed to the settlement at their last regular meeting.

Monday's agreement is detailed in a memorandum of understanding signed by representatives of by the sewer district, four construction companies and Travelers Fidelity, which issued the district's insurance policy protecting it from criminal wrongdoing.

The agreement calls for the contractors to pay \$6 million within 30 days of a final legal agreement being signed. The remaining \$6 million will be secured by a letter of credit and paid over six years in installments of \$1 million.

The contractors also agreed to drop their claims for \$13 million they say they should have been paid.

"We've had audits and reviews that show we're doing a much better job of managing our projects," said the district's executive director, Julius Ciaccia Jr., who took the helm in 2007 with the charge of turning around the agency. "But we had this money hanging out there."

"It's a big deal for us to recover money that's been lost," Ciaccia said. "It's important in regaining the trust of our customers."

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